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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR A HEARING TO
DETERMINE THE FAIR VALUE OF THE
UTILITY PROPERTY OF THE COMPANY
FOR RATEMAKING PURPOSES, TO FIX A
JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN

Docket No. E-01345A-08-0172

**NOTICE OF FILING SUMMARY
OF DIRECT TESTIMONY AND
SUMMARY OF REPLY
TESTIMONY OF KEVIN C.
HIGGINS ON BEHALF OF
FREEPORT-MCMORAN
COPPER & GOLD INC. AND
ARIZONANS FOR ELECTRIC
CHOICE AND COMPETITION
(SETTLEMENT AGREEMENT)**

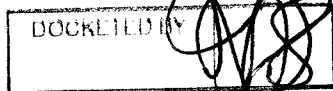
Freeport-McMoRan Copper & Gold Inc. and Arizonans for Electric Choice and
Competition (collectively "AECC") hereby submit the Summary of the Direct Testimony
and the Summary of the Reply Testimony of Kevin C. Higgins (Settlement Agreement) on
behalf of AECC in the above captioned Docket.

RESPECTFULLY SUBMITTED this 13th day of August 2009.

FENNEMORE CRAIG, P.C.

Arizona Corporation Commission
DOCKETED

AUG 13 2009



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1 **ORIGINAL and 13 COPIES** of the foregoing
2 **FILED** this 13th day of August 2009 with:

3 Docket Control
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By: Mary Ballington

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 In the Matter of the Application of Arizona)
4 Public Service Company for a Hearing to)
5 Determine the Fair Value of the Utility)
6 Property of the Company for Ratemaking)
7 Purposes, to Fix a Just and Reasonable)
8 Rate of Return Thereon, to Approve Rate)
9 Schedules Designed to Develop Such Return)

Docket No. E-01345A-08-0172

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13 **SUMMARY**

14 **Direct Testimony of Kevin C. Higgins**

15
16 **on behalf of**

17 **Freeport-McMoRan Copper & Gold Inc. and**

18 **Arizonans for Electric Choice & Competition**

19
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21 **Settlement Agreement**

22
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26 **July 1, 2009**

1 Mr. Higgins testifies in support of the Proposed Settlement Agreement
2 (“Agreement”) filed by Staff on behalf of the Agreement’s Signatories on June
3 12, 2009. The proposed Agreement provides a comprehensive resolution of the
4 issues in the Arizona Public Service Company (“APS”) general rate case. In Mr.
5 Higgins’ opinion, the Agreement produces just and reasonable rates and is in the
6 public interest. On behalf of AECC, he recommends adoption of each provision
7 in the Agreement as a package deal.
8

9 The broad scope of the Agreement is attested to by the fact that it is supported by
10 twenty Signatories with widely varying constituencies. Mr. Higgins testifies that
11 the Agreement strikes the appropriate balance between customer interests and
12 utility interests. Its adoption would provide APS an opportunity to improve its
13 financial condition while being fair to customers by not increasing rates any more
14 than is absolutely necessary. The Agreement’s reduction in revenue requirement
15 from APS’s request is similar to what Mr. Higgins had recommended in his direct
16 testimony on revenue requirement. In support of the objective of improving
17 APS’s financial condition, the Agreement commits APS to make a minimum of
18 \$700 million of equity infusions through 2014 and obligates the Company to
19 undertake best efforts to attain an equity-to-total-capital ratio of 52 percent by the
20 end of 2012.
21

22 In addition, the Agreement resolves the important rate case issues of revenue
23 spread and rate design in a just and equitable manner. With two exceptions (low
24 income and the spread of rates within Rate E-32), the Agreement spreads the base
25 rate increase across all customer rate schedules on an equal percentage basis,
26 inclusive of the interim increase, and inclusive of fuel and purchase power costs
27 that are incorporated into base rates. This approach treats customer rate impacts
28 on a basis that is directly comparable to the measurement of class revenue
29 deficiencies in APS’s cost-of-service study filed as part of APS’s direct case, and
30 is almost identical to the revenue spread recommended in Staff’s direct case,
31 which called for an equal percentage increase in base rates for all rate schedules
32 except low income, inclusive of fuel costs (and inclusive of any interim increase).
33 Mr. Higgins believes the Agreement’s revenue spread is just and reasonable in the
34 context of the overall Agreement.
35

36 With respect to rate design, the Agreement provides that the rate increases for
37 Rates E-34, E-35, and E-32-L will be implemented by adopting APS’s proposed
38 customer charges, along with equal percentage increases in the demand and
39 energy charges for the rate schedules. This provision ensures that, within these
40 rate schedules, higher-load-factor and lower-load-factor customers will receive
41 the same percentage base rate increase, which is reasonable in the context of the
42 overall Agreement. The Agreement also requires APS to work with Staff and
43 other interested parties to develop an Interruptible Rate Rider for Rate E-34 and
44 E-35 customers that will be filed within 180 days of the Commission’s approval
45 of the Agreement. If structured properly, interruptible rates can be a cost-
46 effective means for utilities to obtain reliable capacity.

1
2 The Agreement also contains major provisions addressing increased energy
3 efficiency and renewable energy development. Included in the energy efficiency
4 provisions of the Agreement is the advancement of self-direction of DSM
5 investments by larger customers, which Mr. Higgins views as an essential
6 component of APS's DSM efforts going forward.
7

8 The Agreement provides a plan for base rate stability by prohibiting APS from
9 filing its next two general rate cases prior to June 1, 2011 and June 1, 2013,
10 respectively. In connection with these provisions, the Agreement also provides
11 that no new base rates resulting from APS's next general rate case will be
12 effective prior to July 1, 2012. This "stay-out" will provide customers with an
13 assurance of stable base rates for a considerable period. In Mr. Higgins' opinion,
14 this is a material benefit to customers.
15

16 The Agreement also provides for the potential for Systems Benefits Charges to
17 customers to be reduced in 2012 if a Palo Verde license extension is approved
18 prior to the conclusion of the next rate case. In Mr. Higgins' opinion, the
19 treatment of Palo Verde life extension costs represents a creative solution that
20 bridges the litigation differences among various of the Signatories to enable the
21 crafting of a successful package. The provision provides important benefits for
22 customers and the Company without raising rates. He strongly supports its
23 adoption along with the other provisions of the Agreement.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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3 In the Matter of the Application of Arizona)
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5 Determine the Fair Value of the Utility)
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7 Purposes, to Fix a Just and Reasonable)
8 Rate of Return Thereon, to Approve Rate)
9 Schedules Designed to Develop Such Return)

Docket No. E-01345A-08-0172

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11
12
13 **SUMMARY**

14 **Reply Testimony of Kevin C. Higgins**

15
16 **on behalf of**

17 **Freeport-McMoRan Copper & Gold Inc. and**
18 **Arizonans for Electric Choice and Competition**

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21 **Settlement Agreement**

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26 **August 6, 2009**

1 Mr. Higgins' reply testimony responds to the testimony submitted by Barbara
2 Wyllie-Pecora and other individuals in opposition to the Proposed Settlement
3 Agreement ("Agreement"). In general, the parties in opposition to the Agreement
4 are proposing to modify Service Schedule 3 to include a provision for 1,000 feet
5 of "free footage" for residential line extensions, up to a cost of \$25,000. Mr.
6 Higgins recommends that these proposals be rejected, and that the Agreement as
7 submitted by its signatories be approved by the Commission.

8
9 One of the fundamental principles in ratemaking is that costs should be assigned
10 to cost causers to the greatest extent practicable. This objective is accomplished
11 under the general policies in place in current Schedule 3. If the Schedule 3
12 proceeds are reduced through adoption of a "free footage allowance," then the
13 Agreement provides the shortfall should be made up through a bigger rate
14 increase than is already provided in the Agreement. This would produce an
15 inequitable result for existing customers.

16
17 Further, if the true cost of extending power lines is not included in the decisions
18 made by individuals purchasing land and building homes, but instead is socialized
19 to other parties, then it can result in more expensive options being selected than
20 would otherwise occur. In Mr. Higgins' opinion, it is *not* sound public policy to
21 mask these costs so that they are not taken into account in private decision
22 making.

23
24 Mr. Higgins points out that while he believes it is just and reasonable for new
25 customers to be responsible for the direct cost of line extensions to reach their
26 premises, he is not adverse to the concerns of new customers. Rather, he supports
27 a balanced approach. Mr. Higgins notes that in its initial filing, APS proposed
28 even greater fees for new customers to recover incremental distribution system
29 costs. In his direct testimony, Mr. Higgins opposed this concept, arguing that such
30 an approach raises many policy and economic questions and can result in
31 unintended consequences. As part of the Agreement, APS's proposed impact fees
32 are withdrawn. Further, the Agreement proposes some improvements to the
33 Schedule 3 terms that are beneficial to new customers, which Mr. Higgins fully
34 supports, including procedures for refunding amounts to customers when
35 additional customers connect to the line extension.

36
37 In Mr. Higgins' opinion, the current Schedule 3 approach as modified by the
38 Agreement, which assigns to new customers the direct cost of extending service
39 to their premises, but which does not include an additional impact fee, strikes the
40 correct balance between fair consideration of the interests of new customers and
41 existing customers.

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